

# 1

## Introduction

### **The software industry as an exemplary case of the functioning of the Russian market economy**

If Russia has indeed ‘become a market economy’ as Anders Åslund claimed already in 1995, what are the roles of the social, cultural and moral aspects of this economy and how does it function at the level of individual actors and their personal relations? In more concrete terms: what kinds of resources are transmitted through the personal networks of Russian business managers and directors, and which mechanisms govern this transmission?

This book searches for answers to these questions by contesting the separation of the economy from the social world and by setting the interactions of real people in their everyday economic activities at the center of inquiry (Swedberg and Granovetter 2001). The investigation will be accomplished through the analysis of interviews and an online survey conducted among specialists, managers, directors and company owners of St. Petersburg software development companies between 2003 and 2006.

The software industry is a particularly indicative test case through which to investigate the Russian market economy and its networking practices.<sup>1</sup> A study of one of the most sophisticated and modern (though still relatively modest in terms of turnover and profit) parts of the Russian economy should better reveal the actual functioning of the markets than, say, a study of the state-controlled energy sector. The Russian software industry is also relatively less influenced by the ‘Soviet heritage’ than many other branches of the Russian economy: though its roots are in the scientific and technical knowledge already accumulated in the Soviet era and imperial Russia, the first companies emerged only

during perestroika and as a rule did not inherit outdated Soviet production facilities or management structures.

This book contributes to the literature on post-Soviet transition, affording a rarely available micro-level view on the new Russian knowledge-based economy. In addition, it has both economic and political importance. From the viewpoint of the development of the Russian *economy*, this book's significance lies in pointing out perspectives on economic diversification in terms of mathematical-technical expertise instead of on energy production and export. A developed software sector is not only essential for the modernization of all fields of the economy; the examples of Ireland and India suggest that it may also function as a major source of revenue in a national economy (Terekhov 2003). Increasing global connections in the field of information technology may also encourage the adoption of international business practices, for example through ISO and CMM quality certification (Feakins 2007).

Finding the Russian economy a way out of the 'resource curse' is all the more necessary since the economic policy based on energy production has had its time in the sun and the growth in output of basic energy commodities is likely to remain low (Sutela 2008a, b). This necessity has not gone unnoticed by the Russian leadership: both Vladimir Putin and Dmitry Medvedev have on several occasions emphasized the need to diversify the Russian economy.<sup>2</sup> The latter, for example, has criticized harshly the backwardness of the Russian economy and its anchorage in the Soviet past, naming information technology as one of the five new priority areas of the economy. When announcing the creation of a presidential commission for the modernization and technological development of Russia's economy in May 2009, Medvedev openly admitted that none of the precedent measures taken to boost innovation-based high-tech economy in the 2000s, such as industrial parks, technology transfer centers, special economic zones or Russian venture companies, had yielded serious results but rather existed 'only on paper' (Butrin and Granik 2009). He returned to the economic modernization theme in his opening address for the commission in June, in his widely debated article 'Go, Russia!' in September, and in his address to the Federal Assembly in December of the same year (Medvedev 2009a, b, c).<sup>3</sup>

From the viewpoint of *politics*, the investments by and collaboration with foreign IT firms in Russia as well as the Russian IT entrepreneurs' activities may open up the Russian economy and create preconditions for a new kind of state-business relationship, currently characterized by the dominance of the state over the economy (Yakovlev 2006). More

importantly, modern information and communications technology plays an increasingly important role for the horizontal communication among civil society actors, substituting for the biased coverage of the Russian mainstream media (Lonkila 2008).

## **The role of social networks in the Soviet and Russian economy and society**

Thanks primarily to Alena Ledeneva's (1998) work on *blat* – a Soviet system of using connections to obtain private gain from state resources – there is agreement among researchers on the central role social networks played in Soviet society.<sup>4</sup> In order to get by in daily life, most Soviet citizens had to pull strings, for example, to get decent meat, a car, an apartment or exemption from army service.

However, the use of social networks for purposes other than *blat* in the Soviet Union is a clearly under-researched topic. *Blat* practices certainly did not cover all the instances of mutual favors or helping others out in Soviet daily life. Moreover, even the actual prevalence of *blat* in the Soviet Union is difficult to estimate in retrospect. As noted by Anna-Maria Salmi, it is not known how many Soviet citizens actually obtained, say, their apartment or car by using *blat* (Salmi 2006, 2009).<sup>5</sup>

The critical notes by Salmi also warn against hasty answers to the question 'What happened to the use of connections when the Soviet Union collapsed?' If we lack reliable empirical data on the prevalence of these connections in the Soviet Union, the estimates of the *changes* in post-Soviet Russia in these ties will be educated guesses at best.

Despite the problems, a natural expectation would seem to be that the privatizing of the economy and the spread of market relations would have torn apart old Soviet era practices such as *blat*: most goods which were in short supply in the Soviet Union are now freely available on the market, there are less state property, goods or services to use in private exchanges, and the market costs of these exchanges are clearly visible to all participants (Ledeneva 1998; for a closer look at *blat* and its transformation in post-Soviet Russia see Chapter 4).

However, a growing body of research on the use of social networks in the post-Soviet era suggests that connections still play an important role in Russian society, for example, in health care (Salmi 2003; Rivkin-Fish 1997, 2005), education (Lonkila 1998), civil society and collective action (Alapuro 2001; Alapuro and Lonkila 2000; Gibson 2001) and many other fields of life (Salmi 2006; Ledeneva 2009).<sup>6</sup> Though, because

of the fading of the Soviet shortage economy, there is less need to pull strings to get access to goods and services, connections are still needed – often in conjunction with money – to ensure their quality.

The results of these studies are lent further support by an all-Russian survey on the non-market forms of exchanges of help in Russian families' daily life conducted by the Russian Academy of Sciences in 2000 and 2006. The study revealed that the number of Russian families getting various types of help from their personal networks had increased in regard to almost all types of help. The study also found that the types of help obtained from one's social networks varied according both to the local context (help being more prevalent in growth regions such as Moscow and St. Petersburg) and to the socioeconomic level of the families. The poor families used their social ties mainly to survive in daily life, whereas the 'multifunctional' networks of the more well-to-do families also helped them in improving their situation. The results of the study suggest that social networks are not only the result of social stratification but also reproduce this stratification.<sup>7</sup>

Similarly, a face-to-face survey conducted in 313 Moscow families in 2005–6 about their engagement in non-market work found that the vast majority of the households studied participated in non-market economic practices, including the subsistence economy, non-monetized exchange with friends, neighbors and kin and informal monetary exchange (Williams and Round 2007).<sup>8</sup>

Networks are not only used, however, for Russian households' subsistence, but to solve a wide variety of daily life problems in various arenas and fields of life. Expanding the area surveyed outside the household income formation allows us to conclude that the connections still have an important role in post-Soviet Russian society.

In line with the findings regarding the role of networks in Russian society, the studies of networks in the Russian *economy* have confirmed their role across a variety of economic contexts such as labor markets (Clarke and Kabalina 2000; Yakubovich and Kozina 2000; Yakubovich 2005), banking (Guseva and Rona-Tass 2001) and entrepreneurship and firm performance (Aidis et al. 2008; Shmulyar Gréen 2009; Batjargal 2003, 2005a, b, 2007; Rogers 2006).<sup>9</sup>

Because of the wide range of study areas, different theoretical backgrounds, a range of methods mostly not designed for network research and often-metaphorical notions of networks, this literature does not produce coherent or accumulating results. These difficulties notwithstanding, the main conclusion points to the continuing and central importance of social networks in Russian economic life.<sup>10</sup>

The significance of networks in the Russian economy is often related to lacking or incomplete market institutions such as the banking system, the distrust of most societal institutions penetrating Russian society<sup>11</sup> and the patterns of behavior inherited from the Soviet era. In Russian daily life several aspects that are taken for granted in 'Western countries'<sup>12</sup> may turn out to become problematic; and in solving these problems, one is inclined to turn to his/her social ties for help.<sup>13</sup>

Despite the wealth of research on social networks in the Russian economy, there is still a remarkable lack of empirical studies describing in detail *how* these networks function in practice at the grassroots level. How do the network ties emerge and form? What kinds of resources flow through these ties? Which mechanisms govern the transmission of resources? These are the questions this book seeks to answer by paying attention not only to social, but also cultural and moral aspects of the Russian economy.

### **Incorporating cultural and moral aspects into studies of networks in the Russian economy**

Studies of social networks in the Russian economy seem to suffer from a double bias: it is as if any use of social networks in Russia has a somewhat dubious or instrumental character, and the networks of *economic* life are even more contaminated by pervasive instrumentalism and illegal or immoral behavior. Consequently, other aspects of the social networks, such as friendship or non-instrumental mutual help, have received much less attention (but see Kharkhordin 2005: 132–54, 2009).

At least two reasons for this state of affairs can be distinguished. First, due to the vagueness or complete lack of definition of the notion of 'network', the term may be used to refer to anything from formal interorganizational ties to social interaction in general (Salmi 2006). Second, social networks are often confused with *blat* and post-Soviet informal practices despite the fact that not all informal practices are effectuated through social networks, and networks also have other, non-instrumental functions such as sociability.

This book seeks to overcome these problems by taking the notion of *personal network* both as the theoretical point of departure and methodological tool of the study, enabling an analysis of networks as an alternative means to markets for coordinating economic activities. This analysis will reveal the tensions resulting from the

sometimes-contradictory requirements of personal ties and markets and illustrate the intertwining of social, cultural and moral aspects in the Russian economy.

This book focuses, instead of on illegal or immoral practices, on more supportive and mundane aspects of favors, ranging from a hint about a good job from a friend to the help of a lawyer acquaintance in writing a contract or the advice of an old schoolmate to locate a key person in a client organization. Without these kinds of favors – mostly invisible in any statistics – neither the Russian nor any other economy would work properly. It is essential to note that these favors are often quicker, cheaper and more effective than alternative, formal ways of action, and they do not *necessarily* have to have either an illegal or immoral character. At the same time, they may have important consequences for the economy and society as a whole, as is the case in job searches, for example.<sup>14</sup>

Thus this study complements previous research on economic networks and informal practices, particularly Alena Ledeneva's important work on the economy and society of the Soviet Union and post-Soviet Russia, including such works as *Russia's Economy of Favours: Blat, Networking and Informal Exchange* (Ledeneva 1998) and *How Russia Really Works: The Informal Practices That Shaped Post-Soviet Politics and Business* (Ledeneva 2006), but differs from Ledeneva's research in several respects.

First, Ledeneva's (1998) examples concern the daily life problems of ordinary people and various fields of business in both the Soviet Union and post-Soviet Russia, whereas this book deals solely with the most modern part of the post-Soviet Russian economy. Second, this study focuses on personal networks instead of informal practices. Third, the material of Ledeneva's latest book (2006) describes the situation mainly in the 1990s, ending with her study of informal practices up to the year 2003. The online survey data of this book were collected in 2004 (describing the situation in 2003), but the interviews cover the years 2003–6, with updates to the present. Fourth, this study deals with 'the economy of favors' in post-Soviet Russia, which differs from *blat* exchanges in two important ways: the mutual favors analyzed in this book do not have to have the dubious character that marked *blat* exchanges, nor is state property or access to it as a rule used as a medium of exchange. Finally, this book shows that the Russian market economy is not only embedded in social networks but also that the actors in the networks justify their economically relevant transactions by referring to *moral* principles.

## Structure of the book

The next chapter describes the theoretical idea, methods and data of the study. It introduces the notion of personal network to the reader and analyzes the advantages of the notion in the studies of the Russian economy and society. The chapter also describes in detail the use of the researchers' own personal ties when trying to get interviews from the busy Russian IT professionals. This description is not only of a methodological nature, however, since it simultaneously illustrates the central theme of this book: the importance of personal network ties in solving problems in post-Soviet Russia.

Chapter 3 contextualizes the network data on Russian managers' and directors' networks analyzed in this book. The chapter begins with a case description of the birth and development of the St. Petersburg software company 'Arcadia'. This case is then placed in a larger context by a portrayal of the evolution of the IT field in the Soviet Union and post-Soviet Russia.

Though the IT sector has been less affected by the Soviet past than many other fields of Russian industry, this past is still in many ways present in today's IT sector. Chapter 4 discusses both the constraining *and* enabling aspects of this 'Soviet legacy'. It offers examples of the gradual transformation of informal Soviet practices, such as *blat* (pulling strings), to the transition-era barter and present-day *otkat*, a new and widespread form of corruption.

Social networks do not grow haphazardly; rather, new acquaintances are usually made in social contexts and milieus where people are brought together by some common purpose and are likely to have regular or prolonged interaction. Chapter 5 studies the social milieus and 'interaction foci' important to personal network growth among St. Petersburg IT professionals. They include schools with a special emphasis on mathematics, the several technical universities of St. Petersburg, virtual milieus such as Russian weblogs and social networking web sites, the association of Russian software developers and the special importance and social functions of birthdays in the Russian economy and society.

Chapter 6 describes in detail the contents of the network exchanges, illustrated by quotes from our respondents' interviews. These exchanges transmit various kinds of information and other important economic resources, such as jobs, advice and concrete help.

While the previous chapter dealt with the contents of the Russian managers' informal transactions, Chapter 7 analyzes the social

mechanisms governing these exchanges. The chapter focuses on three such mechanisms: reciprocal obligations, the use of brokers in resource transmission and evaluation and the mixing of professional and personal spheres of life. In discussing reciprocal obligations, the chapter shows – drawing from the justification theory developed by Luc Boltanski and Laurent Thévenot ([1991] 2006) – how the economically relevant exchanges between Russian IT professionals are related to and supported by the *moral* resources used to justify these exchanges.

Chapter 8 connects the micro-level analysis of preceding chapters to an assessment of the nature of the emerging new Russian capitalism, building on the results of an online network survey conducted among St. Petersburg IT professionals in 2004. Having established the importance of personal network ties in the Russian economy and society, this chapter examines the extent to which this significance is indicative of the emergence of the ‘new spirit of capitalism’, which values constant networking, projects and mobility (Boltanski and Chiapello 2005).

The study’s conclusions are offered in Chapter 9.